

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2011



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified for all major programs except for the Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

CDBG - Entitlement Grants Cluster	
Community Development Block Grants/Entitlement Grants	CFDA #14.218
Community Development Block Grants/Entitlement Grants - ARRA	CFDA #14.253
Neighborhood Stabilization Program - ARRA	CFDA #14.256
Homelessness Prevention and Rapid Re-Housing Program - ARRA	CFDA #14.257

Public Safety Partnership and Community Policing Grants Cluster	
Public Safety Partnership and Community Policing Grants	CFDA #16.710
Public Safety Partnership and Community Policing Grants - ARRA	CFDA #16.710
JAG Program Cluster	
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	CFDA #16.738
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	CFDA #16.803
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	CFDA #17.275
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Highway Planning and Construction - ARRA	CFDA #20.205
Capitalization Grants for Drinking Water State Revolving Funds Cluster	
Capitalization Grants for Drinking Water State Revolving Funds	CFDA #66.468
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	CFDA #66.468
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	CFDA #81.128
Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA	CFDA #93.724
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

The threshold for distinguishing between Types A and B programs was \$2,350,914.

City of Minneapolis qualified as low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Journal Entries

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of journal entries.

Management is also responsible for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

The City of Minneapolis' journal entry policy documents a monthly monitoring process of generating and reviewing a detail report of all journal entries that have been posted to the accounting system.

Condition: Based on our testing of internal control relating to journal entries and compliance with City policy, the monthly monitoring process of generating and reviewing a report detailing all journal entries that have been posted to the accounting systems is not being performed.

Context: The ability to initiate and approve journal entries on the general ledger system is a powerful function. It allows staff with access the ability to make changes to the financial system.

Effect: As a result of this condition, the City lacks internal controls over the processing of journal entries. Also, the City's policy for monitoring journal entries is not being followed.

Cause: City staff have not yet generated a general ledger query that would detail all journal entries posted to the accounting system for review on a monthly basis.

Recommendation: We again recommend that a report be generated monthly detailing all journal entries that have been posted to the accounting system as required by the City's policy. Review and monitoring of this report should be done to ensure proper oversight for unusual or inappropriate activity.

Client's Response:

Because the Compass financial system does not have a built-in control to prevent the same person from entering and approving journal entries, the Compass Support division of the Finance and Property Services Department has developed a query that lists journal entries that have been created and posted by the same person. The Controller's Division of the Finance and Property Services Department will develop a process to run and review that query on a monthly basis. In addition to the query, the Controller's Division currently tests a sample of journal entries for appropriateness, documentation and adherence to policy as part of its internal control testing. The journal entry policy will be updated to reflect these changes.

See Corrective Action Plan – Page 13

ITEM ARISING THIS YEAR

11-1 Permanent Improvement Capital Project Fund Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit of the Permanent Improvement Capital Project Fund, 12 audit adjustments were proposed and recorded to properly report revenue, including federal revenue. These audit adjustments were not material individually, or in the aggregate; however, the number of adjustments required indicates an internal control weakness.

Context: Revenue is recorded for a variety of projects and funding sources in this fund by a number of Finance and Property Services staff. The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Multiple audit adjustments were recorded to correctly identify and report revenue, including federal revenue.

Cause: Multiple staff are responsible for recording revenue in the Permanent Improvement Capital Project Fund, depending on the project and funding source. Also, reconciliations of receivables and revenues are not performed on a timely basis, if at all.

Recommendation: We recommend Finance and Property Services management implement internal controls related to the recording of revenue for the Permanent Improvement Capital Project Fund to ensure revenue is recorded appropriately based on the purpose of the revenue, the funding source, and the federal program, if applicable,

prior to recording the transaction in the general ledger system. We also recommend that revenue accounts be reconciled periodically throughout the year to grant agreements and related expenditures. Finance and Property Services staff could consider confirming revenue amounts from the various funding sources to ensure revenue is being recorded appropriately.

Client's Response:

The Finance and Property Services Department in conjunction with the Public Works Department has established a capital account management group which is in the process of developing procedures and guidelines for the management of the Permanent Improvement Capital Project Fund. In addition, the Capital Accounting section within the Controller's Division will be responsible for a quarterly analysis of the Fund, and the documentation of guidelines and procedures to analyze the fund balance and related transactions and to reconcile revenue accounts and related expenditures to the grant agreements and other source documentation.

See Corrective Action Plan – Page 13

PREVIOUSLY REPORTED ITEMS RESOLVED

Monitoring Internal Controls (07-1)

The City performed a risk assessment of its internal controls, documented the internal controls, and laid the ground work for testing of those internal controls. However, no testing of those internal controls was performed.

Resolution

The City performed testing of its internal controls on a quarterly basis during 2011.

City Payroll Procedures (07-3)

Certain payroll staff involved in the processing of payroll, who were both a Departmental Representative and Payroll Representative, had the ability to create temporary employees, add hours to pay lines, and change banking information in the HRIS system, all without electronic approvals.

Resolution

Payroll staff no longer have incompatible payroll system access. The Payroll Manager and two Human Resources Administrators have access to both the employee maintenance and payroll portion of the City's Time and Labor payroll system. We feel it is reasonable that only these individuals have access to both portions of the payroll system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-2 Identification of Federal Awards

Program: Highway Planning and Construction - ARRA (CFDA No. 20.205)

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received, including identifying programs funded by the American Recovery and Reinvestment Act (ARRA).

Condition: The City did not adequately identify amounts received and expended for a federal award program funded with ARRA on its preliminary estimate of federal expenditures. Highway Planning and Construction - ARRA (CFDA No. 20.205) was discovered during audit procedures reconciling federal award information provided by City staff to information provided by the State of Minnesota for amounts paid to the City of Minneapolis, including federal awards and ARRA funding, if applicable.

Questioned Costs: None.

Context: Federal award programs funded with ARRA are considered to be of higher risk which could affect their selection for testing as part of the City's single audit.

Effect: The inability to identify and track the Highway Planning and Construction (CFDA No. 20.205) grant program funded with ARRA affected the selection of programs tested in the City's single audit. Highway Planning and Construction (CFDA No. 20.205) was considered a low-risk program based on our initial risk assessment and was not originally selected as a program for the single audit. However, based on the percentage of ARRA funding in relation to the total program funding and the inability to identify the program as being funded with ARRA, the program was deemed to be high-risk and, therefore, was required to be tested as part of the single audit as an additional program. Had this program been identified as ARRA in the City's preliminary estimate of federal expenditures, the number of programs audited for the single audit could have been reduced.

Cause: The City does not have procedures in place to adequately identify federal award programs, including those funded with ARRA.

Recommendation: We recommend City management develop written procedures that will allow staff to correctly identify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, program name, and whether the program is funded with ARRA.

Client's Response:

The Grant Accounting Manager, working with the Office of Grants & Special Projects in the Intergovernmental Relations Department, will develop written procedures and other tools to aid in the identification and reporting of all Federal Awards. These procedures will include regular communication with City departments that receive awards, and inquiring at USAspending.gov on a regular basis.

See Corrective Action Plan – Page 14

11-3 Equipment and Real Property Management

Programs: CDBG - Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Community Development Block Grants/Entitlement Grants - ARRA (CFDA No. 14.253); **JAG Program Cluster:** Edward Byrne Memorial Justice Assistance Grant (JAG) Program (CFDA No. 16.738) and Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA (CFDA No. 16.803)

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include maintaining internal controls over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: Based on our review of grant expenditures for both the CDBG - Entitlement Grants Cluster (CFDA Nos. 14.218 and 14.253) and the JAG Program Cluster (CFDA Nos. 16.738 and 16.803), vehicles and equipment were purchased with federal funds; however, neither the vehicles nor the equipment were entered into the City's capital asset module of its general ledger system.

Questioned Costs: None.

Context: Vehicles and equipment were purchased with grant funds.

Effect: Internal controls over compliance with equipment and real property management could not be relied upon, and compliance with equipment and real property management was not met. The assets purchased with grant funds were not included as capital assets in the City's financial statements, resulting in an overstatement of expenditures and an understatement of capital assets.

Cause: The City has not typically administered grants where the purchasing of vehicles and equipment are common transactions.

Recommendation: We recommend the City develop a system and written policies and procedures to ensure internal control and compliance requirements over equipment and real property management are met. Assets purchased with grant funds should be given an identifiable asset number when purchased to properly maintain asset information; this will also benefit the City if, and when, these assets are disposed of to ensure proper reporting to the respective federal agency.

Client's Response:

All of the assets in question have been capitalized in the City's Compass financial system. The Capital Asset Accounting area in the Controller's Division will develop guidelines to aid accounting staff in identifying equipment purchased with federal funds and will communicate with accounting and program management staff within appropriate departments, on at least a quarterly basis, to remind them to search for and book all capital assets.

See Corrective Action Plan – Page 14

11-4 Financial Subrecipient Monitoring

Programs: CDBG - Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants (CFDA No. 14.218) and Community Development Block Grants/Entitlement Grants - ARRA (CFDA No. 14.253); Housing Opportunities for Persons with AIDS (CFDA No. 14.241); Neighborhood Stabilization Program - ARRA (CFDA No. 14.256); Homelessness Prevention and Rapid Re-Housing Program - ARRA (CFDA No. 14.257); Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228); Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA No. 14.900); Lead Hazard Reduction Demonstration Grant Program (CFDA No. 14.905); Youth Gang Prevention (CFDA No. 16.544); Grants to Encourage Arrest Policies and Enforcement of Protection Orders (CFDA No. 16.590); Juvenile Justice and Delinquency Prevention - Allocation to States (CFDA No. 16.540); Workforce Investment Act Pilots, Demonstrations, and Research Projects (CFDA No. 17.261); Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA (CFDA No. 17.275); Workforce Investment Act (WIA) Cluster: Workforce Investment Act - Adult Program (CFDA No. 17.258), Workforce Investment Act - Adult Program - ARRA (CFDA No. 17.258), Workforce Investment Act - Youth Activities (CFDA No. 17.259), Workforce Investment Act - Dislocated Workers (CFDA No. 17.260), and Workforce Investment Act - Dislocated Worker Formula Grants (CFDA No. 17.278); Federal Transit Formula Grants (CFDA No. 20.507); Highway Planning and Construction (CFDA No. 20.205); Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (CFDA No. 81.128); Healthy Start Initiative (CFDA No. 93.926); Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (CFDA No. 93.505); Temporary Assistance for Needy Families (CFDA No. 93.558); Child Abuse and Neglect Discretionary Activities (CFDA No. 93.670); Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA (CFDA No. 93.724); Maternal and Child Health Services Block Grant to the States (CFDA No. 93.994).

Criteria: OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the entity's ability to comply with applicable federal regulations.

Condition: Based on our review of the subrecipient monitoring procedures performed to ensure that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings, the City does not have a comprehensive list of subrecipients and amounts passed through to them.

Questioned Costs: None.

Context: The City of Minneapolis passes through federal awards to subrecipients and is required to perform financial monitoring of those subrecipients.

Effect: The City of Minneapolis has no assurance that required audits are being performed of its subrecipients and that the subrecipients are taking prompt corrective action on any audit findings.

Cause: The City of Minneapolis' general ledger software does not have the capability to track subrecipients and the amounts of federal funds passed through to them. No alternate method of tracking subrecipient information has been developed.

Recommendation: We recommend the City develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met and subrecipients are monitored in accordance with OMB Circular A-133.

Client's Response:

The Grant Accounting Manager in the Finance and Property Services Department will work with Compass Support to develop queries and reports to identify vendors that may be grant subrecipients. The reports will list expenditures to non-profit and governmental entities by fund and department. The Grant Accounting Manager will run this report and work with accounting staff and City departments to identify subrecipients. In addition to the new reports, the Grant Accounting Manager will send, on an annual basis, a reminder of the subrecipient audit requirements, including a copy of the Sub-Recipient Policy, to Department heads and financial managers.

See Corrective Action Plan – Page 14

11-5 Requirements of Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (CFDA No. 81.128)

Program: Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (CFDA No. 81.128)

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include maintaining internal controls over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The City did not maintain adequate internal controls over compliance or comply with the following compliance requirements:

- The complete population of grant expenditures was not provided for audit; expenditures for only one of the two programs funded with this grant were provided. It was later discovered that there was another program with material expenditures that required additional testing.
- Indirect costs of \$10,356 were coded to this grant, although not claimed for reimbursement, when the grant agreement specifically does not allow indirect costs.
- Seven contractors were hired to perform construction activities each exceeding \$2,000 between the two programs for this grant. Davis-Bacon monitoring was performed for only three of the contractors.
- Equipment totaling \$201,429 was purchased and reimbursed with grant funds; however, the equipment was not entered into the City's capital asset module of its general ledger system, nor was it recorded on the City's financial statements.
- The original grant agreement for the Facility Cost Share (FCS) program expired on June 30, 2011, but was subsequently extended to September 30, 2011. Expenditures were incurred after June 30, 2011; however, the City could not provide the amendment to the grant agreement supporting the grant period extension.
- The FCS grant agreement requires submission of reimbursement requests by the 5th day of each month for the preceding month's work. The September 30, 2011, reimbursement request was dated November 21, 2011.

- Grant funds are passed through to a subrecipient; however, programmatic subrecipient monitoring for the Residential Retrofit project is not performed. The City reviews reports submitted by the subrecipient for activities performed, but site visits and file review are not performed or documented.
- The FCS grant agreement (under Minnesota Rules Part 1323.0672, Subpart 3) requires submission of acceptance testing documentation to the Office of Energy Solutions (OES) for any modifications to heating, ventilation, and/or air conditioning systems. During 2011, the City did not submit acceptance testing documentation.

Questioned Costs: None.

Context: Federal award program administration is decentralized throughout the various departments of the City. In some cases, federal award programs are administered by staff with limited grant experience.

Effect: Internal controls over administration of grant programs and/or compliance with the following compliance requirements were not met: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Equipment and Real Property Management; Period of Availability of Federal Funds; Reporting; Subrecipient Monitoring, and Special Tests and Provisions.

Cause: Both program and finance staff were not adequately trained and supported in their duties of administering, accounting for, and complying with direct and material compliance requirements for federal award programs.

Recommendation: We recommend all City staff (including both program and finance staff) responsible for the administration and compliance of federal programs receive adequate training and support to properly administer, account, and comply with direct and material compliance requirements specific to federal award programs.

Client's Response:

The Finance and Property Services Department will develop procedures and training/education opportunities to communicate to and educate City department and accounting staff on requirements for grant administration and reporting. In addition, Finance is working with the Office of Grants & Special Projects in the Intergovernmental Relations Department to establish a grant users working group within the City which will meet quarterly to disseminate information and establish more effective communication with recipient departments about such things as general and financial grant management, reporting requirements, allowable costs, capital asset accounting and reporting, and compliance requirements.

See Corrective Action Plan – Page 15

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the City is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

Condition: Twenty-eight of the 162 invoices tested for compliance with this statute were not paid within 35 days.

Context: The City's accounts payable function is centralized.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

Cause: The accounts payable process is centralized; however, not all vendors submit invoices directly to the accounts payable group. Additional processing time is incurred when invoices or other supporting documentation is first sent to the individual departments.

Recommendation: We recommend the City make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

The City has undertaken numerous efforts to improve its Procure-To-Pay function in an effort to ensure purchases are approved in advance, receipts of goods and services are verified and vendors are paid timely. In the second half of 2012, accounts payable (AP) management will initiate regular meetings with City department management to address the additional processing time incurred when invoices are either sent to the department directly by the vendor instead of the accounts payable group or require additional review and approval by the department before being processed by accounts payable. An accounts payable manager is also being hired to better facilitate and manage AP processes including the prompt payment of invoices. We anticipate that an improvement in invoice payment will follow and that the City will be able to pay its vendors in a timely manner.

See Corrective Action Plan – Page 15

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2011**

FINDING	ACTION ITEMS	PERSON RESPONSIBLE	ESTIMATED COMPLETION DATE	STATUS
08-1 Journal Entries	<ul style="list-style-type: none"> ▪ Develop and implement query that lists all journal entries created and posted by same person. ▪ Run query monthly to review journal entries and address exceptions. ▪ Update journal entry policy to incorporate new query and review process. ▪ Test a sample of all journal entries processed on a quarterly basis for appropriateness, documentation and adherence to policy; review with Accounting Director. 	<ul style="list-style-type: none"> ▪ General Accounting Manager with Compass Support ▪ General Accounting Manager with Controller ▪ Accounting Director ▪ Accountant II - Internal Control 	<p>6/20/2012</p> <p>Monthly starting with close of June 2012</p> <p>9/30/2012</p> <p>Ongoing</p>	<p>Query has been developed.</p> <p>Testing started in first quarter 2011.</p>
11-1 Permanent Improvement Capital Project Fund Adjustments	<ul style="list-style-type: none"> ▪ Finance/Public Works capital account management group to review and document procedures and guidelines for Fund financial management. ▪ Clarify and document accountability and oversight expectations for financial management of Fund by staff in the Capital Accounting section of the Controller's Division. ▪ Develop procedures for analyzing fund balance and related accounting transactions on a quarterly basis. ▪ Prepare quarterly analysis and reconciliation of Fund balance and related revenue and expenditure transactions. 	<ul style="list-style-type: none"> ▪ Controller/PW Admin Services Manager ▪ Proprietary & PW Finance Manager with Controller ▪ Capital & General PW Accounting Manager ▪ Capital Accountant II 	<p>10/31/2012</p> <p>9/30/2012</p> <p>9/30/2012</p> <p>Initial analysis as of 6/30/2012 to be completed by 9/30/2012; quarterly updates thereafter</p>	

FINDING	ACTION ITEMS	PERSON RESPONSIBLE	ESTIMATED COMPLETION DATE	STATUS
11-2 Identification of Federal Awards	<ul style="list-style-type: none"> ▪ Develop written procedures and other tools to help identify federal awards that have been received by the City. ▪ Communicate regularly with Accounting and department program staff to disseminate information and procedures and to obtain information on new grants received. ▪ Inquire on USAspending.gov to identify direct federal awards. 	<ul style="list-style-type: none"> ▪ Grant Accounting Manager; Accounting Director ▪ Grant Accounting Manager ▪ Grant Accounting Manager 	<p>11/30/2012</p> <p>Quarterly starting with July 2012 monthly meetings</p> <p>Quarterly starting in July 2012 for second quarter 2012.</p>	
11-3 Equipment and Real Property Management	<ul style="list-style-type: none"> ▪ Document procedures and capital asset reporting guidelines and disseminate to Accounting and department program staff to help ensure newly acquired capital equipment and related funding sources, particularly federal funds, are identified timely. ▪ Periodically review capital expenditure transactions and related funding information with Accounting and department program staff to ensure purchases of capital equipment and real property purchases are properly booked and accurately reported. 	<ul style="list-style-type: none"> ▪ Accounting Director with Proprietary Fund & PW Finance Manager ▪ Accounting Director with Proprietary Fund & PW Finance Manager 	<p>10/31/2012</p> <p>Semi-annually starting in January with close of 2012</p>	
11-4 Financial Subrecipient Monitoring	<ul style="list-style-type: none"> ▪ Develop query and/or report to identify payments made to potential subrecipients (non-profit entities and governmental agencies). ▪ Provide training to Accounting and department program staff on identifying and reporting subrecipient information to Grant Accounting Manager. ▪ Communicate with departments to aid in identifying subrecipients and provide information on subrecipient monitoring and compliance requirements. 	<ul style="list-style-type: none"> ▪ Grant Accounting Manager with Compass Support Staff ▪ Grant Accounting Manager ▪ Grant Accounting Manager 	<p>10/31/2012</p> <p>9/30/2012</p> <p>Send initial information by 07/31/2012 and annually in January</p>	

FINDING	ACTION ITEMS	PERSON RESPONSIBLE	ESTIMATED COMPLETION DATE	STATUS
<p>11-5 Requirements of Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA</p>	<ul style="list-style-type: none"> ▪ Work with Office of Grants & Special Projects in the Intergovernmental Relations (IGR) Department to establish a grant users working group that will meet on a regular basis to provide a forum for disseminating and communicating grant management, administrative, regulatory and compliance information, and to discuss related issues and concerns. ▪ Develop and coordinate education and training opportunities for accounting and department project and program management staff on grant administration, accounting and compliance. ▪ Communicate grant information to accounting and department staff as needed on an ongoing basis. 	<ul style="list-style-type: none"> ▪ Grant Accounting Manager/Accounting Director with IGR ▪ Grant Accounting Manager with IGR ▪ Grant Accounting Manager with IGR 	<p>Completed</p> <p>Starting in fourth quarter 2012 (by 11/31/2012)</p> <p>Ongoing, as needed</p>	<p>Held first meeting on 6/21; future meetings will occur quarterly.</p> <p>Will provide separate training on specific topics as well as incorporating into grants user working group meetings.</p>
<p>09-1 Prompt Payment of Invoices</p>	<ul style="list-style-type: none"> ▪ Establish regular AP meetings with departments to address concerns/issues. ▪ Communicate with Accounting and department program staff to remind them of policies and procedures related to invoice handling and payment. 	<ul style="list-style-type: none"> ▪ Cash Manager ▪ Accounting Director 	<p>Quarterly with first meetings occurring by 12/31/2012</p> <p>7/31/2012</p>	

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and Members of the City Council
City of Minneapolis, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 27, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Meet Minneapolis, as described in our report on the City of Minneapolis' financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Meet Minneapolis were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Minneapolis' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 08-1 and 11-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Minneapolis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Minneapolis complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 09-1.

The City of Minneapolis' written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, Audit Committee, Mayor, management, others within the City of Minneapolis, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2012

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REBECCA OTTO
STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and Members of the City Council
City of Minneapolis, Minnesota

Compliance

We have audited the City of Minneapolis' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The City of Minneapolis' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Minneapolis' basic financial statements include the operations of the Minneapolis Park and Recreation Board (Park Board) component unit, which expended \$2,066,261 in federal awards during the year ended December 31, 2011, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Park Board because it had a separate single audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Minneapolis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 11-5 in the accompanying Schedule of Findings and Questioned Costs, the City of Minneapolis did not comply with requirements regarding Davis-Bacon Act, Equipment and Real Property Management, Reporting, Subrecipient Monitoring, and Special Tests and Provisions that are applicable to its Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA. Compliance with such requirements is necessary, in our opinion, for the City of Minneapolis to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Minneapolis complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. In addition, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-3.

Internal Control Over Compliance

Management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-5 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-2, 11-3, and 11-4 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis as of and for the year ended December 31, 2011, and have issued our report thereon dated July 27, 2012. We did not audit the financial statements of Meet Minneapolis, which represents less than 1 percent, a negative 2 percent, and 8 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the City of Minneapolis' financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City of Minneapolis' corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, Audit Committee, Mayor, management, others within the City of Minneapolis, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 27, 2012

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through the University of Minnesota Integrated Programs	10.303	\$ 13,535
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants (CDBG)/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 11,470,913
Community Development Block Grants/Entitlement Grants - ARRA	14.253	1,557,021
Emergency Shelter Grants Program	14.231	763,065
HOME Investment Partnerships Program	14.239	3,716,324
Housing Opportunities for Persons with AIDS	14.241	936,310
Neighborhood Stabilization Program - ARRA	14.256	6,522,030
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	2,724,686
Healthy Homes Demonstration Grants	14.901	1,892,991
Lead Technical Studies Grants	14.902	196,521
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	2,504,975
Passed Through Hennepin County		
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	313,088
Lead Hazard Reduction Demonstration Grant Program	14.905	25,721
Total U.S. Department of Housing and Urban Development		\$ 32,623,645
U.S. Department of the Interior - National Park Service		
Passed Through Minnesota Historical Society Historic Preservation Fund Grants-In-Aid	15.904	\$ 28,000
U.S. Department of Justice		
Direct		
Youth Gang Prevention	16.544	\$ 140,835
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	440,951
Public Safety Partnership and Community Policing Grants Cluster		
Public Safety Partnership and Community Policing Grants	16.710	209,151
Public Safety Partnership and Community Policing Grants - ARRA	16.710	1,065,777
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	58,145
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	158,340

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice (Continued)		
Passed Through Minnesota Department of Public Safety		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	17,095
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	71,200
Violence Against Women Formula Grants - ARRA	16.588	33,969
Public Safety Partnership and Community Policing Grants Cluster		
Public Safety and Partnership and Community Policing Grants	16.710	7,119
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	16.803	263,178
Passed Through Hennepin County		
JAG Program Cluster		
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	534,333
Edward Byrne Memorial Competitive Grant Program - ARRA	16.808	160,430
		\$ 3,160,523
U.S. Department of Labor		
Direct		
Workforce Investment Act Pilots, Demonstrations, and Research Projects	17.261	\$ 144,042
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	17.275	2,051,095
Passed Through Minnesota Department of Employment and Economic Development		
Workforce Investment Act (WIA) Cluster		
WIA - Adult Program	17.258	565,814
WIA - Adult Program - ARRA	17.258	30,000
WIA - Youth Activities	17.259	1,423,980
WIA - Dislocated Workers	17.260	29,104
WIA - Dislocated Worker Formula Grants	17.278	1,066,888
		\$ 5,310,923
U.S. Department of Transportation		
Passed Through Metropolitan Council		
Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$ 16,085
Federal Transit Formula Grants	20.507	333,513

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation (Continued)		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	11,462,539
Highway Planning and Construction - ARRA	20.205	3,313,398
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	22,840
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	1,783
Occupant Protection Incentive Grants	20.602	17,714
Safety Belt Performance Grants	20.609	14,340
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	51,552
Total U.S. Department of Transportation		\$ 15,233,764
U.S. Environmental Protection Agency		
Direct		
Congressionally Mandated Projects	66.202	\$ 377,851
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	109,680
Passed Through Minnesota Public Facilities Authority		
Capitalization Grants for Drinking Water State Revolving Funds Cluster		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	7,945,166
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	2,439,433
Total U.S. Environmental Protection Agency		\$ 10,872,130
U.S. Department of Energy		
Direct		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	\$ 601,755
Passed Through Minnesota Department of Commerce		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	81.128	101,976
State Energy Program - ARRA	81.041	261,923
Total U.S. Department of Energy		\$ 965,654

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Maternal and Child Health Federal Consolidated Programs	93.110	\$ 61,252
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	19,507
Healthy Start Initiative	93.926	977,909
Passed Through Hennepin County		
Teenage Pregnancy Prevention Program	93.297	133,429
Temporary Assistance for Needy Families	93.558	407,428
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	712,956
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	46,724
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	13,152
Temporary Assistance for Needy Families	93.558	1,025,300
Child Abuse and Neglect Discretionary Activities	93.670	29,702
Immunization - ARRA	93.712	9,119
Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA	93.724	1,881,199
Maternal and Child Health Services Block Grant to the States	93.994	821,810
Passed Through the University of Minnesota		
National Community Centers of Excellence in Women's Health	93.290	<u>16,439</u>
Total U.S. Department of Health and Human Services		<u>\$ 6,155,926</u>
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 65,221
Port Security Grant Program	97.056	164,753
Passed Through City of Bloomington		
Homeland Security Grant Program	97.067	230
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,626,925
Emergency Management Performance Grants	97.042	30,000
Port Security Grant Program	97.056	579,226
Homeland Security Grant Program	97.067	1,380,607
Buffer Zone Protection Program (BZPP)	97.078	<u>152,724</u>
Total U.S. Department of Homeland Security		<u>\$ 3,999,686</u>
Total Federal Awards		<u>\$ 78,363,786</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis. The City's reporting entity is defined in Note 1 to basic financial statements. This schedule does not include \$2,066,261 in federal awards expended by the Minneapolis Park and Recreation Board component unit, which had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Minneapolis under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Minneapolis, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Minneapolis.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the City of Minneapolis. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Community Development Block Grants (CDBG) Entitlement Grants Cluster	\$ 13,027,934
Public Safety Partnership and Community Policing Grants Cluster	1,282,047
JAG Program Cluster	797,511
Workforce Investment Act (WIA) Cluster	3,115,786
Federal Transit Cluster	349,598
Highway Planning and Construction Cluster	14,775,937
Highway Safety Cluster	56,677
Capitalization Grants for Drinking Water State Revolving Funds Cluster	10,384,599

5. Subrecipients

Of the expenditures presented in the schedule, the City of Minneapolis provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 1,890,822
14.253	Community Development Block Grants/Entitlement Grants - ARRA	1,464,370
14.241	Housing Opportunities for Persons with AIDS	908,440
14.256	Neighborhood Stabilization Program - ARRA	1,763,509
14.257	Homelessness Prevention and Rapid Re-Housing Program - ARRA	2,528,065
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	357,880
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	170,968
14.905	Lead Hazard Reduction Demonstration Grant Program	14,125
16.544	Youth Gang Prevention	54,449
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	162,746
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	17,095
17.261	Workforce Investment Act Pilots, Demonstrations, and Research Projects	124,862
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	894,827
17.258	Workforce Investment Act - Adult Program	351,695
17.258	Workforce Investment Act - Adult Program - ARRA	30,000
17.259	Workforce Investment Act - Youth Activities	1,257,881
17.260	Workforce Investment Act - Dislocated Workers	23,000
17.278	Workforce Investment Act - Dislocated Worker Formula Grants	620,952
20.507	Federal Transit Formula Grants	333,513

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

5. Subrecipients (Continued)

CFDA Number	Program Name	Amount Provided to Subrecipients
20.205	Highway Planning and Construction	1,043,000
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	165,360
93.926	Healthy Start Initiative	408,421
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	13,152
93.558	Temporary Assistance for Needy Families	1,269,554
93.670	Child Abuse and Neglect Discretionary Activities	29,702
93.724	Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA	815,929
93.994	Maternal and Child Health Services Block Grant to the States	518,616
Total		<u>\$ 17,232,933</u>

6. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 63,907,388
Federal Fixed Price Contracts	
Equal Employment Opportunity Commission	(1,499)
Empowerment Zone Loans	(3,108)
Drug Enforcement Admin TF	(36,848)
GET-ATF	(367,424)
GET-ICE	(3,297)
MN Cyber Crime Task Force	(11,806)
MN Violent Crime/Fugitive	(19,543)
Organized Crime Drug Enforcement	(998)
FBI - Operation Bloodbath	(42,365)
Safe Streets Violent Crime TF	(213,272)
Federal Projects	(9,006)
U.S. Marshalls OT May - Dec 2011	(7,300)
Joint Terrorism Task Force	(13,361)
American Indian Business Development	(80)
FDA Food Safety Training	(5,000)
Heat Incident Response CDC	(37)
MN Task Force	(2,055)
Timing Differences Between Expenditures and Related Reimbursements	325,255
Minnesota Public Facility Agency Loans	10,384,599
Grant received more than 60 days after year-end, deferred in 2011	2,463,210
Expenditures occurring prior to 2011 but reimbursed in 2011	(36,932)

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

6. Reconciliation to Schedule of Intergovernmental Revenue

Federal Program Income	
Edward Byrne Memorial Justice Assistance Grant Program	479
Neighborhood Stabilization Program - ARRA	8,577
Healthy Homes Demonstration Grant	37,110
Neighborhood Stabilization Program	534,295
Community Development Block Grants/Entitlement Grants	<u>1,476,804</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 78,363,786</u>

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.